Week 8 Assignment

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Capitalism

The first concept that stands out to me from this course is capitalism. Capitalism is an economic system where private entities own the factors of production (Amadeo, 2020). They also derive their income from their ownership which gives them the ability to operate their companies efficiently, and this provides them with the incentive to maximize profit (Amadeo, 2020). Four factors included in capitalism are entrepreneurship, capital goods, natural resources, and labor (Amadeo, 2020). Through companies, the owners of capital goods, natural resources, and entrepreneurship exercise control (Amadeo, 2020). The individual owns their labor, with the exception being slavery, and unfortunately, it is still widely practiced (Amadeo, 2020).

Capitalism is important because it has many advantages. Some advantages of capitalism are: There is no better alternative, efficient allocation of resources, efficient production, dynamic efficiency, financial incentives, creative destruction, economic freedom helps political freedom, it is a mechanism for overcoming discrimination and bringing people together, different types of capitalism, and rising living standards (Pettinger, 2019). When governments attempt to control the economy, you end up with numerous problems like corruption, lack of incentives, and poor information (Pettinger, 2019).

A real-life application of capitalism for me will be when I am financially incentivized to do well at my job so I can be promoted and make more money. If I become a sales associate for the front office of a professional baseball team, I will want to do well at that job so I can get promoted into a sales manager position and make more money. In a capitalistic economy, the government does not play a big role, and this is a good thing.

Disposable Income

The second concept that stands out to me from this course is disposable income. Disposable income is the income that is left over after you pay taxes (Henricks, 2020). So, it is the amount of money a person retains after federal, state, and local taxes and other mandatory deductions (Henricks, 2020). Mandatory deductions include taxes for Medicare, Social Security, unemployment insurance, and court-ordered child support (Henricks, 2020). Disposable income is used as an indicator to determine the state of the overall economy (Henricks, 2020).

Disposable income is important because it can lead to an economic boom (Tarver, 2018). Tarver (2018) states, “If disposable income increases, households have more money to either save or spend, which naturally leads to a growth in consumption. This increase in consumption could increase corporate sales and corporate earnings, increasing the value of individual stocks. This increase in individual share price valuations could then lead to a market-wide increase in value. This potentially leads to an economic boom.”

A real-life application of disposable income for me will be when I secure a full-time job and try to create as much disposable income as possible for myself. I can then spend or save this disposable income how I like. In my case, I do not spend a lot of money so I will most likely be saving most of my disposable income. The government decreases disposable income because you must pay federal, state, and local taxes.

Economic Profit

The third concept that stands out to me from this course is economic profit. Economic profit is the difference between the revenue received from the sale of an output and the costs of all inputs used and any opportunity costs (Tuovila, 2019). When you calculate economic profit, opportunity costs and explicit costs are deducted from revenues earned (Tuovila, 2019). Opportunity costs are a type of implicit cost determined by management and they vary based on different perspectives and scenarios (Tuovila, 2019). So, economic profit is essentially a firm’s revenue minus its total costs, including the opportunity cost of capital (CoreEcon, 2018).

Economic profit is important because, “it is used as an indicator of how profitable company projects are and it therefore serves as a reflection of management performance” (“Economic Profit,” 2019). Economic profit tries to prove that businesses are only profitable when they create wealth for their shareholders, and the measure of this goes beyond calculating net income (“Economic Profit,” 2019). It asserts that businesses should create returns at a rate above their cost of capital (“Economic Profit,” 2019).

A real-life application of economic profit for me is when I go get food at a restaurant like Chipotle. Chipotle is making an economic profit as long as the costs of their inputs and opportunity cost for what I am purchasing are lower than whatever I paid for whatever I bought. I would say Chipotle is doing a pretty good job of creating economic profit. Firms pay taxes to the government, so they may try to cut costs for producing a product and sell it at a higher price to create more economic profit and make up for taxes paid.

Unemployment Rate

The fourth concept that stands out to me from this course is the unemployment rate. The unemployment rate is the share of the labor force that is jobless, and it is expressed as a percentage (Chappelow, 2019). The unemployment rate is a lagging indicator which means it generally rises or falls in the wake of changing economic conditions rather than anticipating them (Chappelow, 2019). If the economy is in poor shape and jobs are scarce, the unemployment rate will rise (Chappelow, 2019). If the economy is growing at a healthy rate and jobs are plentiful, the unemployment rate will fall (Chappelow, 2019).

The unemployment rate is important because, “when workers are unemployed, their families lose wages, and the nation as a whole loses their contribution to the economy in terms of the goods or services that could have been produced” (Picardo, 2019). Workers who are unemployed also lose their purchasing power and this can lead to unemployment for other workers, so it can create a cascading effect that ripples through the economy (Picardo, 2019).

A real-life application of the unemployment rate for me is that I do not want to be a part of this percentage when I get out of college. I am currently looking for a job so when college is over, I have a job set up to start right away when I am done. The last thing I want is to go months without a job once I am out of college. The government, working through the Federal Reserve, tries to reduce unemployment by boosting economic growth, and the primary method used is an expansionary monetary policy (Amadeo, 2019).

Opportunity Cost

The fifth concept that stands out to me from this course is opportunity cost. Opportunity costs are the benefits an individual, investor, or business misses out on when they choose one alternative over another (Kenton, 2019). Financial reports do not show opportunity cost, but business owners can use it to make educated decisions when they have multiple options before them (Kenton, 2019). Bottlenecks are often a cause of opportunity costs (Kenton, 2019). Opportunity costs are unseen so they can be easily overlooked if you are not careful, so understanding the potential missed opportunities by choosing one investment over another leads to better decision-making (Kenton, 2019).

Opportunity cost is important because it can determine the relative price of goods, it can fix the price of a factor, and it is useful in allocating resources efficiently (Ponnusamy, 2014). According to Whitehurst (2014), “It should be relatively obvious that not making choices dilutes from focus, and that’s a mild outcome. More importantly, not making a choice can actually jeopardize both opportunities, and increase overall risk. Equally important is making the right choice. Far too often a choice which results in a short term gain can set a precedent for similar choices, and ultimately derail a more valuable long term payoff. Opportunity cost is a key component in economic theory, and in trade theory. Putting academic exercises aside, it has very real practical applications in maintaining focus and actually accomplishing a goal. It is a major consideration in productivity, innovation and sustainability.”

A real-life application of opportunity cost for me will be when I have to say no to a job offer because I have decided to take a different job. This will be coming up soon for me and I will be missing out on the benefits of the job I did not take. The government deals with opportunity cost every time it creates a law or removes a law. They miss out on the benefits of a certain law when they take one down and miss out on the benefits of not having a certain law when they create one.

Transaction Cost

The sixth concept that stands out to me from this course is transaction cost. Transaction costs are expenses incurred when buying or selling a good or service (Downey, 2019). It is the labor required to bring a good or service to the market, and this gives rise to entire industries dedicated to facilitating exchanges (Downey, 2019). Transaction costs include brokers' commissions and spreads, which are the differences between the price the dealer paid for a security and the price the buyer pays (Downey, 2019).

Transaction costs are important because you cannot manage costs effectively without taking them into account (“Why Transaction Costs are Important for Managers,” n.d.). Managers cannot make the right choices without analyzing transaction costs (“Why Transaction Costs are Important for Managers,” n.d.). Bad decisions will undoubtedly be made if transaction costs are not taken into consideration.

A real-life application of transaction cost for me will be getting a job to sell tickets for a professional sports team. The labor required by me to bring those tickets to market and whatever other required costs to bring those tickets to market is transaction costs. The government incurs expenses all the time when it buys things from other countries and sells things to other countries, these incurred expenses would be transaction costs.

Conclusion

Before this course, I only thought about money when it came to economics. I now understand there are so many things influencing economics. The various case-studies, readings, videos, and in-class discussions will have two major impacts on the monetary choices I will make. First, I will save my money as much as I can because of what I learned. Second, I will invest in things as soon as possible that will create more money for my future so I can retire as soon as possible. This class without a doubt will help me in making smarter monetary choices in my future.

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